

DIRECT TESTIMONY OF URVI SHAH **OFFICIAL FILE**
(PUBLIC VERSION)

BACKGROUND AND QUALIFICATIONS

I.C.C. DOCKET NO. 00-0043

Ameritech Exhibit No. 1.0

Witness Urvi SHAH

Q. Please state your name and business address. Date: 6/1/00 Reporter P. G.

A. My name is Urvi Shah and my business address is 2000 W.
Ameritech Center Drive, Hoffman Estates, Illinois 60196.

Q. What is your current position with Ameritech?

A. I am the Director, Local Toll and Usage. In my current position, I develop and implement local usage and intraMSA toll marketing plans. My job responsibilities include defining product requirements for new product development; managing development, implementation, and tracking of all usage and intraMSA toll advertising campaigns; and providing input to the creation of tools and reference materials used by Ameritech Illinois' service representatives in connection with local usage and intraMSA toll services.

Q. Please describe your educational and work background.

A. I received a Masters in Business Administration from the University of Chicago in 1993 and a Bachelor of Science degree from the University of Illinois at Champaign-Urbana in 1987. I began my career as an information systems professional at Kraft, Inc. in January, 1987. In January 1990, I joined Amoco Corporation, and worked primarily in their systems organizations. In May, 1995, I joined Ameritech Illinois' wholesale services organization, responsible for managing switched transport services. In September, 1996, I was assigned to Ameritech Illinois' consumer marketing department and I have been responsible for its local usage and intraMSA toll services since that time.

Q. What is the purpose of your testimony?

A. The purpose of my testimony, along with that of Jeffrey Fargo, Derek Curtis and David Sorenson, is to respond to the testimony which CUB has filed in this proceeding regarding Ameritech Illinois' SimpliFive and CallPack optional calling plans. I will provide background on usage rate structures and optional calling plans in the telecommunications industry; describe the SimpliFive and

CallPack calling plans and explain why they are offered by Ameritech Illinois; demonstrate that Ameritech Illinois' marketing practices with respect to these plans are not deceptive, as CUB contends; compare Ameritech Illinois' practices with standard practices prevalent in the industry today; and explain why the remedies sought by CUB are inappropriate.

BACKGROUND ON USAGE RATE STRUCTURES AND OPTIONAL CALLING PLANS

Q. Please provide an overview of Ameritech Illinois' local usage rate structure.

A. The majority of Ameritech Illinois' residence customers take service under the Company's basic usage (or calling) rate structure. For the most part, this rate structure is accurately described by Ms. Terkeurst in her testimony (pp. 3 and 4). A few corrections need to be made as follows: (1) the Band C peak rate is \$.10/min, not \$.010/min, in all MSAs; (2) the Band A off-peak rate in MSAs 2-16 is \$.0336/call, not \$.03/call; (3) the Band B off-peak rate in MSAs 2-16 is \$.0102/add min, not \$.012/add min; (4) the automatic discount for usage between \$26.01 and \$52.00 is

33% in MSA 1 and 32.2% in MSAs 2-16; and (5) in those same MSAs, the discount for usage over \$52.01 is 33%.

Local calls under 8 miles (i.e., Band A calls) are charged for on a per-call basis. For example, a customer in MSA 1 pays 5 cents per call for peak-period Band A calls. Calls between 8 and 15 miles (Band B calls) and calls over 15 miles (Band C calls) are charged for on a per-minute basis. That same customer would pay 5 cents for the first minute, and 1.5 cents for each additional minute for a Band B call. These rates also vary by time of day and day of week. In addition, automatic discounts are applied to Bands A and B calls, depending on volume. These rate structures were approved by the Commission in 1986 (MSA-1) and 1990 (MSAs outside of MSA-1).

- Q. Do residential consumers have other calling plans available to them?
- A. Yes. Ameritech Illinois offers several optional calling plans to residence consumers -- principally the SimpliFive and CallPack Plans which CUB describes in its testimony. In 1999, the Company also introduced the Anytime Rate plan,

which offers customers a discounted rate of \$.05/min on Band C calls and a rate of \$.10/min on interstate/intraLATA and Ameritech-to-Independent territory toll calls. This plan also charges a monthly fee of \$4.95.

Q. What are optional calling plans?

A. Optional calling plans provide consumers with alternatives to Ameritech Illinois' basic usage rate structure. They are, however, entirely optional, as their generic title implies. Ameritech Illinois only places consumers on these plans if the consumer specifically requests that it do so.

Q. Are optional calling plans common in the telecommunications industry today?

A. Absolutely. Virtually every major interexchange carrier ("IXC") in Illinois presents their customers with an array of calling plans to choose from, as well as a basic calling rate structure. These IXC calling plans typically apply to both long distance and intraMSA "local toll" service.

Q. What is "local toll" service?

- A. The term "local toll" service has been coined by the IXC's to describe what Ameritech Illinois refers to as Band C calling. These types of calls can also be referred to as "local long distance", "regional long distance", or "intraLATA" calls.

These calls have been subject to presubscription since April of 1996. Presubscription allows customers to direct all of their Band C calls to an IXC automatically, without dialing extra digits, in the same manner as their long distance calls.

- Q. Is there competition today in Ameritech Illinois' service territory for local toll service?

- A. Definitely. The IXC's have been providing local toll service in Ameritech Illinois' service territory since they were certificated in the late 1980's. The pace of competition further accelerated when Ameritech Illinois implemented local toll presubscription. Today, over 72 carriers have been certificated to provide intraMSA services in Ameritech Illinois' service territory.

Q. Are optional calling plans designed to financially benefit all of a carrier's customers?

A. Typically, no. Most carriers design optional calling plans to address the needs of specific segments of their customer base. Some optional call plans are targeted toward heavy users and provide substantial discounts for customers generating higher than average volumes of calling. For example, AT&T's "One Rate 7¢" plan has a monthly fee of \$4.95 and a per-minute rate of \$.07. For a customer who makes a substantial number of local toll or long distance calls a month (in excess of 2-3 hours), this plan can provide savings over other plans offered by AT&T. Some calling plans are directed towards customers who make most of their calls during off-peak periods, when carriers have excess capacity in their networks. For example, MCI's "5¢ Everyday Plus" plan allows customers to call in the evenings and weekends for \$.05/min and during the weekday for \$.07/min. This plan also carries a monthly fee of \$4.95. Some calling plans are directed towards customers with atypical usage patterns -- for example, customers with a high volume of international calls or a high volume of

calls of long duration. Sprint offers a plan that provides 1000 minutes of weekend calling for \$25 a month and \$.10/min during the weekdays and for calls over 1000 minutes.

Q. What does this mean for customers?

A. The fact that there are multiple providers of telecommunications services and that all providers offer a variety of rate plans means that consumers have choices in the marketplace. Along with choice, however, comes additional complexity. It is a fact of life today in the telecommunications industry that consumers have to understand their own calling needs and patterns to make informed choices between carriers and between alternative rate plans.

AMERITECH ILLINOIS' SIMPLIFIVE AND CALLPACK PLANS

Q. Please describe Ameritech Illinois' SimpliFive and CallPack plans in more detail.

A. The CallPack plans are accurately described by Ms. Terkeurst in her testimony (pp. 5 and 6). The SimpliFive plan rates Band A calls at \$.05/call and Bands B and C calls at \$.05/min, 24 hours a day, 7 days a week. In addition, customers receive a 15% discount off their entire Bands A, B, and C usage if the total Bands A, B, and C usage exceeds \$15 per month and a 30% discount if the total Bands A, B, and C usage exceeds \$30 per month. Mr. Sorenson corrects Ms. Terkeurst's application of this discount.

Q. Why were these plans introduced?

A. There were a number of reasons why Ameritech Illinois introduced these plans. One was the need to respond to competition.

As I stated previously, Ameritech Illinois implemented presubscription for Band C (local toll) calls in April of 1996. The IXCs operating in Ameritech Illinois' territory immediately intensified their marketing efforts.

Long distance companies like AT&T, MCI and Sprint have basic rate structures similar to Ameritech Illinois' (i.e., rates that vary by distance, duration, time of day and day of week). However, by 1996, the focus of their marketing activity had shifted primarily to optional calling plans with simplified rate structures. For example, AT&T had launched its "One Rate" plan with a rate of \$.15 per minute, 24 hours a day, 7 days a week in a national advertising campaign featuring Paul Reiser. Sprint had been offering a rate of \$.10 per minute for evening and weekend calling and a rate of \$.25 per minute for daytime calling for quite some time. Their ads featured Candace Bergen as the "Dime Lady".

These plans appealed to customers because they allowed customers to select a single flat rate, no matter when they placed their calls. Both companies marketed these plans to customers based on their simplicity and an easy-to-read phone bill.

The other cornerstone of the IXC's marketing strategy was the bundling of Band C calls with long distance calls. The IXCs consistently encouraged customers to add Band C calls

to their long distance calling plans. Where those plans included volume discounts, customers could achieve higher discounts on all calls, because the total volume of calls directed to the IXC had increased. For example, AT&T offered a plan that provided a 10% discount for combined monthly long distance and Band C usage over \$10 and a 25% discount for combined usage over \$25. MCI offered airline miles equal to the customer's total long distance and Band C usage spending.

Ameritech Illinois responded by promoting its own optional calling plans -- specifically, SimpliFive and CallPacks.

- Q. Did Ameritech Illinois have an independent basis for offering simplified rate structures?
- A. Yes. Ameritech Illinois regularly monitors consumer attitudes and interests and conducts market research so that it can develop new products and services.

I concluded that the IXCs' heavy promotion of long distance calling plans with simple rate structures had been well received by customers. It was also apparent from the market research data that simple pricing was a significant factor which could influence a customer's choice of phone service providers. Over a third of the respondents indicated that they would be willing to pay more for simple pricing; in fact, only a fourth of the surveyed customers said that they would switch carriers to obtain a lower price. Furthermore, the surveyed customers indicated a strong preference for a fixed rate-per-call structure (64% of respondents) and a moderate preference for a fixed rate-per-minute structure (50% of respondents).

Q. Ms. Bayard suggests that, in offering simplified rate plans, Ameritech Illinois pursued the wrong marketing objective based on these surveys (p. 8). Do you agree?

A. No. I agree with Ms. Bayard that the customers in these surveys expressed interest in multiple facets of Ameritech Illinois' telephone service: reliability, price, simplicity and so forth. However, customers typically value multiple "attributes" for virtually any product or service. The

complexity and challenge of marketing lies in choosing which attributes to address and how and when. I am sure that Ms. Bayard must know this, based on her past experience. Although any company would consider the order in which consumers rank attributes for a given product or service in developing marketing plans or new services, this rank ordering never controls the marketing decision nor makes a company's decision to focus on one attribute rather than another at any given point in time unreasonable.

I would also note that Ms. Bayard's position on the use of the survey is self-contradictory. Superior customer service came in higher than either price or simplicity in the list of attributes which consumers seek in their telephone service. If the Company's marketing priorities are to be dictated by the order in which customers rank attributes, as Ms. Bayard suggests, then presumably there was no "mandate" for either lower prices or simplicity. This is not the conclusion Ms. Bayard suggests, however.

- Q. Please describe how the SimpliFive and CallPack plans provide customers with greater bill simplicity.

- A. As I stated previously, the Company's market research indicated that many customers would prefer a rate plan with a fixed fee per call and/or a rate plan with a fixed fee per minute that would apply 24 hours a day, seven days a week. The CallPack rate structure provides a fixed fee per call (i.e., 10 cents) for all calls. SimpliFive provides a fixed fee per minute (i.e., 5 cents for Bands B and C calls) and a fixed fee per call (i.e., 5 cents) for Band A calls.

The billing for these plans is equally simple. The charge for a CallPack 100 customer is \$10 as long as the customer remains within the 100-call allotment. If the customer exceeds the 100-call allotment, the bill reflects the incremental charge for the number of calls in excess of 100, in addition to the fixed \$10 rate. In the case of SimpliFive, the bill displays the total number of calls made at the per call rate of \$.05/call (Band A calls) with a sub-total and the total number of minutes used at the \$.05/min rate (Band B and C calls) with a sub-total. Customers can verify the accuracy of their bills with simple calculations.

Q. Do the SimpliFive and CallPack Plans also provide customers with savings?

A. These rate plans were developed primarily to address customers' desires for simplicity, not lower rates. However, customers can also save money, depending on calling patterns and calling volumes. As a general proposition, both the SimpliFive and CallPack plans generate savings for customers with higher than average Band C calling volumes, relative to Bands A and B. CallPacks also generate savings for customers with average holding times (i.e., length of call) on Bands B and C calls.

Q. Why do the SimpliFive and CallPack Plans include Bands A, B and C calls?

A. First, the Company's market research indicated that customers wanted simplified rates across all of their local calling, not just for Band C. Both the SimpliFive and CallPack Plans offer this greater simplicity for all local calls.

Second, the IXCs bundle Band C calls with their long distance services and tout the benefits of a complete solution to customers' long-haul calling needs. Today, Ameritech Illinois cannot compete directly with these plans, because it cannot provide long distance (i.e., interMSA) services. By providing packages which include all intraMSA usage services, Ameritech Illinois is able to promote a complete solution to customers' short-haul calling needs.

Q. Why are the rates for Bands A and B calls under SimpliFive higher than under the basic rate schedule?

A. This was not an intentional feature of the plan. When the SimpliFive plan was first introduced, the basic rates for Bands A and B calls were as follows:

	Band A	Band B
Peak	5.2 ¢/call	5.6 ¢/call + 2.2 ¢/ each subsequent min
Shoulder Peak	4.7 ¢/call	5.1 ¢/call + 1.9 ¢/ each subsequent min
Off-Peak	3.1 ¢/call	3.4 ¢/call + 1.3 ¢/ each subsequent min

Thus, at that time, the difference in rates between SimpliFive and the Company's basic rate structure was

minimal. Rate reductions required under Ameritech Illinois' Alternative Regulation Plan each year have reduced the prices of Bands A and B under the basic rate structure, inadvertently creating a disparity with SimpliFive rates. However, SimpliFive can still result in savings, depending on a customer's calling patterns.

Q. If customers do not want to pay higher rates for Bands A and B calls, are there alternatives for Band C calls?

A. Yes. As I stated earlier, the Ameritech Anytime Rate plan that provides customers a rate of \$.05 per min for Band C calling -- essentially the same as SimpliFive -- for a monthly fee of \$4.95 per month, while their Bands A and B calls remain under the basic rate schedule. Consumers can also obtain competitive Band C rates from IXC calling plans.

Q. Why are the CallPack per-call rates higher than the basic rate schedule for Band A calls, which are also billed on a per-call basis?

A. As I testified earlier, CallPacks apply to all local calling: Bands A, B and C. Under Ameritech Illinois' basic rate schedule, Bands B and C calls are charged for on a per-minute basis, and the price for those calls will obviously depend on the length of call. The higher per-call charge under the CallPacks was established to ensure that the price would be appropriate for both untimed and timed calls. Because these calls are not timed, the Company also wanted to avoid unduly advantaging heavy users of the network.

Q. Ms. Terkeurst criticizes the Company on the grounds that these rate plans will not benefit the "typical" residence customer with "typical" calling patterns (pp. 1, 3, 7-10). Is this the appropriate perspective from which to judge them?

A. No. Ms. Terkeurst is missing the point. Like most other carriers which offer optional calling plans, the Company developed these plans to target certain segments of its customer base -- in this case, the segment that wanted simpler bills and/or whose usage patterns were such that these rate plans would save them money. The Company never

intended or expected that "typical" customers would
subscribe to these plans.

AMERITECH ILLINOIS' MARKETING OF SIMPLIFIVE AND CALLPACK PLANS

Q. Will you discuss Ameritech Illinois' marketing practices
with respect to the SimpliFive and CallPack Plans?

A. Yes. Because the Company has generally conducted different
marketing campaigns for SimpliFive and CallPacks, I will
discuss each separately.

A. SimpliFive

Q. When did Ameritech Illinois begin actively marketing
SimpliFive?

A. Ameritech Illinois began actively marketing SimpliFive in
February and March of 1998 in all Illinois MSAs where
Ameritech Illinois offered measured service. The Company
promoted this plan through a bill insert to all customers,
as well as television and radio advertisements.

Q. Please describe the results of this promotion.

A.

However,
service representatives then began getting complaints from
customers who found that they were paying more under
SimpliFive than they had under the basic rate plan.

Q. How did Ameritech Illinois respond?

A. Ameritech Illinois responded in two ways. First, service
representatives were instructed to return complaining
customers to basic rates immediately and to make
appropriate bill adjustments. Second, the Company examined
its billing records to identify all customers whose bills
had increased by more than \$5 under SimpliFive, as compared
to what they would have paid under basic rates. These
customers were contacted by telephone or by letter; the
Company explained the rate situation; and customers were
encouraged to call the business office if they wanted to
make a change in their service. A substantial number of
SimpliFive customers did change back to basic rates.

Q. How did Ameritech Illinois change its subsequent promotions?

A. Prior to this promotion, the Company had had limited experience with optional calling plans. Ameritech Illinois concluded that it should have targeted its SimpliFive promotional materials more narrowly. All subsequent bill inserts for SimpliFive were sent only to those customers whose bills would not be significantly impacted by SimpliFive.

The Company elected to use a \$3 threshold (plus or minus) in determining its target market. Customer bills typically vary by several dollars (or more) each month. As a result, the mere fact that a customer would have paid \$3 more in the data month used to establish the universe of customers who would receive the bill insert did not mean that that customer would not save in other months. Also, the Company's market research indicated that approximately one-third of customers might be willing to pay more for simplicity.

In addition, the Company equipped service representatives with a "calculator", which allowed them to compare what customers had actually paid under the basic rate schedule for the past three months with what the customer would pay under SimpliFive. As a result, when customers contact the Company's business office to order SimpliFive, service representatives can and do advise the customer whether SimpliFive or basic rates are more economic for them.

The second SimpliFive promotion ran in September of 1998 and a third and final promotion in April of 1999. In both cases, bill inserts were sent only to customers in MSA-1 who fit the criteria I outlined above and who did not subscribe to a CallPack. The bill insert is attached to Ms. Bayard's testimony as Schedule B, Exhibit 2.

Q. What written materials does Ameritech Illinois provide to customers regarding SimpliFive if asked?

A. Upon request, Ameritech Illinois sends customers a brochure describing SimpliFive and CallPacks. This brochure is attached to Ms. Bayard's testimony as Schedule B, Exhibit 1. With respect to these customers, however, the Company

has not performed any prior analyses to determine what impact the plan might have on their bills. Therefore, to subscribe to either plan, the customer must call an Ameritech Illinois service representative. During the customer contact, the service representative can perform the bill analysis I described above.

Q. Ms. Bayard contends that the SimpliFive marketing materials are "designed to lead customers to believe that they would save money under these plans as compared to their existing rates" (p. 7). Do you agree?

A. No. The principal thrust of all of the SimpliFive bill inserts and brochures has been simplicity, not savings. However, it is important to understand that customers can and do save money on SimpliFive, depending on their calling patterns.

Q. Ms. Bayard claims that customers equate "simple pricing" with "lowest pricing" (p. 11). Do you agree?

A. No. As the market research demonstrated, while a substantial number of the respondents found a fee-per-

minute or fee-per-call plan appealing and felt that it would help control costs, they generally did not expect either structure to result in lower rates.

I also believe that the proliferation of simplified rate plans offered by the IXC's has raised customer awareness that the price advantages (if any) of a rate plan have to be determined by comparing it with the alternatives offered by the same carrier or other carriers.

Q. Would you address Ms. Bayard's specific concerns about certain of Ameritech Illinois' SimpliFive marketing materials referenced in her testimony (pp. 11-12)?

A. Yes. Exhibit 1 is the informational brochure which Ameritech Illinois sends to customers upon request. It covers both SimpliFive and CallPacks. It is not misleading, in that both plans offer simplicity and can save customers money. The text specific to SimpliFive, moreover, makes no representations as to savings. Again, I would note that customers must contact their service representative to respond to this brochure, and the service representative will provide a bill comparison upon request.

Schedule 2 is the SimpliFive bill insert which was sent to targeted customers. It was received only by customers for whom SimpliFive would not have had a significant bill impact -- it was not sent to Ameritech Illinois' entire customer population. There are also no representations in the text regarding savings.

Q. Ms. Bayard contends that the use of a coin graphic in this brochure (Exhibit 1) sends an "implicit message" to customers that SimpliFive is a cheaper plan (p.11). Do you agree?

A. No. This is an example of Ms. Bayard manufacturing problems where none exist. The coin illustrated in the brochure is a nickel. It represents the 5-cent rate which the plan offers to customers. It contains no "implicit message" whatsoever.

Q. Ms. Terkeurst suggests that Ameritech Illinois' service representatives today make misleading statements to customers about SimpliFive, based on a document entitled

"Do You Want Simple Pricing?" (pp. 12-13). Is this accurate?

A. No. This document is an old set of instructions which was issued to service representatives as part of the 1998 promotion of SimpliFive; at that time they did not yet have the "calculator" tool and were not accurately gauging the impact of SimpliFive on customers. It has been superseded by other service representative instructions and by the availability of the calculator which permits accurate estimation of bill impacts. As I described previously, there was only a modest response to this promotion and the Company contacted all customers whose bills went up significantly.

Q. Does Ameritech Illinois use SimpliFive as part of its "winback" campaigns as well?

A. Yes. Schedule 6 attached to Ms. Bayard's testimony is an example of a "winback" letter promoting SimpliFive.

Q. Please explain what "winback" campaigns are.

A. As I stated previously, there is a substantial amount of competition for Band C calling services. When carriers lose customers, they typically attempt to win them back through marketing (hence the term "winback").

Q. What channels does Ameritech Illinois use in its winback efforts?

A. In some instances, the Company uses outside contractors. Mr. Fargo describes these customer contacts. In other instances, the customer contact is handled by Ameritech Illinois' service representative.

Q. What role does SimpliFive play in winback marketing efforts?

A. It depends on the channel.

Q. Are all winback customer contacts handled by Ameritech Illinois' service representatives?

A. No. When the Company affirmatively contacts a customer (as opposed to a customer contacting the Company), Ameritech Illinois typically uses outside contractors. Mr. Fargo describes the information which is provided to customers in those circumstances.

Q. What services do the outside contractors promote?

A. Typically, they promote both basic rates and SimpliFive.

Q. Do the outside contractors have access to information which would allow them to perform comparative billing analyses?

A. No. For a variety of reasons, including maintaining the privacy of customer data, the Company does not provide outside contractors with access to either customer billing

data or the "calculator". If the customer asks for a comparison of optional calling plan rates to basic rates, the outside contractor will refer the customer to an Ameritech Illinois service representative who can perform the analysis.

- Q. Please explain why outside contractors and the winback letters attached to Ms. Bayard's testimony promote SimpliFive.
- A. Based on experience, the Company has found that SimpliFive is appealing to winback customers. It does not require a minimum spending level like CallPack 100 (i.e., \$10 per month). It provides customers with a competitive Band C rate for the calls they make. And, lastly, it is structured more like the IXC plans to which they had responded positively by switching their Band C usage to the IXC in the first place.
- Q. The winback marketing letters address savings explicitly (Bayard Schedule 5, Exhibits 5-12). Would you comment?

A. Yes. First, it is important to understand that these letters are sent only to customers who have switched their Band C usage to an IXC.

Second, the letter does not promise savings. The references to savings simply state that customers have an opportunity to save (not that they will definitely save) or that SimpliFive provides a simple way to save money (not the only way). These letters provide customers with clear rate information on SimpliFive, so they know exactly what rate they will pay for local and Band C calls. The letter is explicit in stating that the plan charges \$.05 per call for calls within 8 miles and all other calls are \$.05 per minute.

Finally, winback customers tend to be more informed consumers than the average, as evidenced by the fact that

they switched their Band C calling to an IXC in the first place. These customers will make a judgment about the value of this plan based on the information provided or will contact the Company, if they believe more information is required.

Q. Ms. Bayard objects to the letter's reference to customers asking for "easy-to-understand local and local toll rates" and contends that the Company should have given customers advice about off-peak calling rates instead (p. 12). Would you comment?

A. Ms. Bayard again seems to be manufacturing problems where none exist. The statement is not incorrect, as she acknowledges. The fact that she might have chosen a different marketing message had the choice been hers to make has nothing to do with whether Ameritech Illinois has engaged in deceptive practices. Moreover, these letters are sent to winback customers, who have already evidenced an interest in the simple rate plans which the IXCs offer. It is entirely reasonable to assume that these customers could be interested in Ameritech Illinois' comparable plans.

Q. Is there another perspective from which one can view the SimpliFive promotions?

A. Yes. One can examine the decisions which customers have actually made with respect to SimpliFive. As Mr. Sorensen explains, Ameritech Illinois analyzed a sample of customers' bills who subscribe to SimpliFive and compared those bills with what they would have paid under the basic rate structure.

B. CallPacks

Q. Please discuss the marketing program for CallPacks.

A. Ameritech Illinois began actively marketing CallPacks in June, 1996, after the implementation of presubscription in Illinois. The initial promotion included radio and television advertising, direct mail and bill inserts to targeted customers.

Q. Which customers were targeted for the CallPack mailings?

A. The CallPack direct mail and bill inserts were targeted to customers who generated a substantial amount of Band C usage.

Q. Please describe the results of this promotion.

A. The campaign was quite successful.

Q. Was there any adverse customer reaction to this CallPack promotion, comparable to the problems the Company experienced initially with SimpliFive?

A. No. Customers were very enthusiastic about CallPacks from the outset.

Q. Where CallPacks promoted again?

A. Yes, CallPacks were promoted again in October 1996 and again in April 1997 because customers continued to show an interest in these plans. The number of CallPack customers doubled by end-of-year 1997. These promotions were also targeted to customers generating high Band C usage.

Q. Does Ameritech Illinois provide other information to customers regarding CallPack?

A. Yes. As I described previously in connection with SimpliFive, in response to customer requests for information regarding optional calling plans, Ameritech Illinois will send them a brochure describing CallPacks. This brochure is attached to Ms. Bayard's testimony as Schedule B, Exhibit 1. Since, the Company has not performed any prior bill analyses to determine whether the plans would be reasonable economic choices for them, the

customer must call an Ameritech Illinois service representative who can help the customer choose a plan.

Q. Can you comment on the CallPack marketing materials?

A. Yes, all of the letters and brochures emphasize that CallPacks are simple, predictable, and affordable. The claim that customers get more for their money is true. With CallPacks, the customer can talk for 2 minutes or for 2 hours and pay the same price (i.e., a maximum of \$.10). Also, all of the marketing materials encourage the customer to call the Company's service representatives to discuss whether a CallPack is right for them.

Q. Are CallPacks used to win back customers?

A. Not specifically.

Q. What kinds of choices have CallPack customers made from an economic perspective?

A. The majority of CallPack customers benefit financially from these plans, because they do not have the usage patterns of

"typical" customers. .

Q. Mr. Goldman suggests that it takes a spreadsheet and hours of work to make a bill comparison between basic rates and either SimpliFive or CallPack. Is that relevant to the issues raised by CUB?

A. Not particularly. I agree that it would be a complex undertaking to independently calculate the rate differences accurately down to the last penny -- as Mr. Goldman did for purposes of CUB's testimony. However, that is not what customers need to do. Customers just need to contact an Ameritech Illinois service representative, who will perform the calculations for them.

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The bill

details the number of Bands A, B and C calls made that month, as well as the "additional" minutes incurred on Bands B and C calls. If they are unsure about the relative benefits, again, a service representative is available to provide additional information.

Q. Do customers obtain additional information about the rate impact of an optional calling plan after signing up?

A. Of course. Customers receive telephone bills from Ameritech Illinois on a monthly basis. If customers make what CUB would consider a "bad" decision relative to SimpliFive or a CallPack, they know that as soon as they receive their next bill. In my experience, customers promptly complain to Ameritech Illinois' business office when their rates go up unexpectedly. The service representatives explain the customers' rate options and puts them back on basic rates, if that is their choice. Service representatives are instructed to provide customers with bill adjustments in that situation.

Q. Ms. Bayard suggests that Ameritech Illinois increases its usage revenues by offering these plans (p. 9). Is that true?

A. No. Ameritech Illinois experiences substantial revenue losses as a result of offering both CallPack and SimpliFive. The revenue impact of these plans is discussed in detail by Mr. Sorenson.

Q. Ms. Terkeurst concludes that Ameritech Illinois does not accurately represent the costs and benefits associated with subscribing to its SimpliFive and CallPack plans (pp. 11-13). Is this correct?

A. No. The primary representation made with respect to both plans is that they offer simpler rate structures. This is true, and CUB's witnesses do not contend otherwise.

IMPACT ON COMPETITION

Q. CUB expresses concern about the impact of these plans on competition in Illinois. Is this an appropriate area of concern?

A. No. As I described previously, these optional calling plans were developed in part as a response to the ubiquitous marketing by the IXC's of their long distance calling plans in Illinois -- which include "local toll" (i.e., Band C) calling. Ameritech Illinois has its own competitive disadvantages in the battle for customers' local toll calling, a disadvantage that will not end until Ameritech Illinois can provide long distance (i.e., interMSA) services. Even then, the IXC's have a massive head start in this business, sharing 100% of the long distance customers between them.

Q. Ms. Terkeurst contends that the inclusion of Bands A and B calling in these plans creates a deterrent to selecting an IXC for local toll service (pp. 14-15). Do you agree?

A. No. Her argument rests on the assumption that customers are led to believe that their Bands A and B usage rates will be lower under these optional calling plans. This is not accurate. The Company's marketing materials make no such representation.

Furthermore, customers have to compare the overall benefits they obtain under the SimpliFive or CallPack plans with the overall benefits they obtain from the IXCs' optional calling plans, which include both Band C and long distance calling. I agree that this is not always a simple analysis. However, that does not mean that Ameritech Illinois' offerings are deceptive.

- Q. Ms. Terkeurst has specific concerns about the Company's winback initiatives (pp. 15-16). Would you comment?
- A. Yes. Ms. Terkeurst objects to the "Customer Alert" letter which Ameritech Illinois sends to customers who have changed their Band C calling to an IXC. She claims that Ameritech Illinois' statement in the Alert that "many customers have been switched without their permission" disparages its competitors.

This letter is not disparaging to competitors or in any way deceptive. The unauthorized switching of customers to other carriers (referred to as "slamming") has been one of the most highly publicized consumer fraud issues in the telecommunications industry.

I discussed the use of SimpliFive and CallPack plans as winback offerings previously.

STANDARDS IN THE INDUSTRY

Q. CUB's witnesses repeatedly express concern that customers have to understand their calling patterns to determine whether SimpliFive or CallPacks are advantageous to them. Is this unusual in the telecommunications industry?

A. No, just the opposite. Consumers have to understand their calling patterns to make informed choices about any of their telecommunications services -- not just the ones they purchase from Ameritech Illinois.

As I indicated previously, the long distance companies provide a vast array of choices for consumers, both with respect to carrier and with respect to rate plans. They all charge different rates and offer different optional

calling plans. The number of choices is so great that several on-line services are now available to help consumers determine which service is best for them.

For example, comparative rates for Illinois intrastate long distance services are available from "A Bell Tolls" (www.abelltolls.com). A copy is attached as my Schedule 1. The Telecommunications Research & Action Center ("TRAC") web site provides a connection to "Salestar", a free, on-line, customized pricing service (www.trac.org). This service computes the costs for long distance calls under seven major carriers' calling plans. To use this service, Salestar advises the customer to have actual telephone bills on hand to "assure that the calls you are comparing are representative of your normal calling pattern". The program requires consumers to enter the following information: (1) the amount of money spent in a typical month on long distance calls; (2) the area code and first three digits of frequently called number; (3) the time of day when those numbers are called ("day", "evening" or "night"); and (4) typical call durations. The program then calculates the total cost of these calls, along with the

average price per minute, under each of the major rate plans.

Salestar does not even attempt to include the impact of monthly recurring charges or minimums in the calculations. These charges significantly impact the amount consumers will pay for these calls.

- Q. What do you mean by "recurring charges or minimums"?
- A. Many of the calling plans being promoted today by the IXC's require consumers to pay a fixed monthly amount to qualify for the per-call rate. For example, AT&T's "One Rate 7 Cents" plan charges customers a flat \$5.95 per month, in addition to 7 cents a minute for each call. AT&T's "One Rate 5 cent Plan" offers customers a 5 cent rate, with a higher \$8.95 monthly fee and a requirement that customers accept online billing and customer service. MCI's "5 cents Everyday Savings" plan requires a \$2.95 monthly payment and its "5 Cents Everyday Plus" plan requires a \$4.95 monthly payment. The customer must make a substantial number of long distance calls for these plans to be economically attractive.

Q. Do the IXCs acknowledge that customers must be aware of their calling patterns to make an informed choice?

A. Yes. For example, an October 31, 1999, article in the Chicago Sun-Times about these monthly fee plans quotes AT&T as follows:

"AT&T spokesman Andy Boisseau says consumers should figure out which of the myriad long-distance plans works best for them. 'Consumers have a wide variety of choices, and consumers should be looking at their bills and analyzing their calling patterns to determine what is best for them', Boisseau said."

Q. What conclusion do you draw?

A. It is a fact of life that consumers have to make choices and that the choices are not always easy to make. That does not mean that Ameritech Illinois or any of the other carriers operating in this state have engaged in misleading marketing practices or failed in their duties to their customers.

Q. Do the IXCs provide more complete information to customers than Ameritech Illinois?

A. Not in my opinion. Attached as my Schedule 2 are representative marketing materials from AT&T and MCI for certain of their calling plans. They do not advise customers that there may be more economic choices. They do not advise customers that the benefits of these plans (if any) depend on the customers' calling patterns. They do not provide customers with complete information on the relative advantages or disadvantages of other alternative rate plans. In fact, in some instances, relevant rate information appears only in tiny print.

Q. Do the IXC's offer the kind of customized bill analysis Ameritech Illinois provides through its service representatives?

A. I do not believe so. When I have called AT&T and MCI to ask if a specific plan would save me money, I have been given only general guidelines to determine whether or not a plan would be beneficial to me -- even when I was presubscribed to them. For example, I was told by AT&T that, if I made more than 2 hours of long distance calling, the One Rate \$.10/min plan would probably benefit me. No IXC has ever provided me with a customized analysis based

on my actual calling patterns. In addition, if I call about a specific plan, neither the AT&T nor the MCI service representatives ever volunteer information about other plans which could save me more money. In my experience, Ameritech Illinois does a better job of informing its customers than the IXC's do.

Q. Under these circumstances, are the criticisms which CUB directs at Ameritech Illinois warranted?

A. No. If there is a problem with the amount of information which customers receive from carriers about optional calling plans, it is an industry-wide problem. If any regulatory action is needed to address the issues which CUB raises, it should apply to all carriers in the marketplace, not just Ameritech Illinois. For example, the FCC and the FTC recently released a Joint Policy Statement on the marketing of long distance and dial-around services by the long distance carriers to curb abuses and ensure full disclosure to customers. This policy statement applies to all providers.

CUB'S REQUEST FOR CORRECTIVE ACTION

Q. Please summarize the corrective actions which CUB is asking this Commission to require of Ameritech Illinois.

A. Ms. Terkeurst is requesting that the Commission impose the following six new obligations on the Company:

1. "Provide customers with the information they need in order to make informed choices regarding the desirability of these plans, including a clear explanation during marketing activities that the customer's calling patterns will affect the rates paid under the marketed plan and that lower-priced options may be available,
2. During marketing activities, offer to provide information about other Ameritech Illinois rate options and offer to do a customer-specific billing comparison using available historic usage data or anticipated usage patterns,
3. Offer the SimpliFive and CallPack options to customers only after it has offered to provide the additional information addressed above,
4. Provide SimpliFive and CallPack subscribers with on-going information about their usage, including itemized monthly bills,
5. Provide customers information annually about all Ameritech Illinois rates and plans available to them in order to allow customers to evaluate, over time, whether particular calling plans are indeed beneficial to them, and
6. Fund a consumer education campaign through the print and electronic media and bill inserts to educate

consumers about Ameritech's basic rates, ways they can control their telephone costs, the availability of calling plans and the existence of competition for some services" (p. 2).

Q. Is any relief appropriate based on the facts presented in CUB's testimony?

A. No. As I have explained, and contrary to Ms. Terkeurst's claims (p. 2), Ameritech Illinois' marketing practices have not been "deceptive" and no "harm has been inflicted on customers and competition." Therefore, no relief is appropriate.

Q. Please discuss CUB's first three proposals.

A. Ms. Terkeurst's first three proposals involve the information provided in marketing contacts between Ameritech Illinois' service representatives and customers. Ameritech Illinois would be required to: (1) explain that the customer's calling patterns will affect the rates paid and that lower-priced options may be available; and (2) offer to provide additional information about its other rates and a customer-specific billing comparison using historical usage data or anticipated usage patterns.

Ameritech Illinois would be permitted to ask a customer to subscribe to SimpliFive or a CallPack only after such offers have been made (p. 17).

I have no objection to advising customers that their calling patterns will affect the rate benefits they will receive under these plans. I would agree, for example, to include a statement to that effect in any written materials sent to consumers regarding optional calling plans.

I object, however, to the remainder of CUB's proposal. Ameritech Illinois' service representatives already provide customers with more information than other major carriers in Illinois. It should be the customer's decision whether or not to ask for information about other rates or a billing comparison.

Q. Please discuss CUB's fourth proposal.

A. Ms. Terkeurst's fourth proposal involves ongoing information which CUB contends should be provided to SimpliFive and CallPack subscribers. Ameritech Illinois would be required to provide SimpliFive and CallPack

customers with itemized monthly bills comparable to those provided to customers taking service under basic usage rates, showing the number of untimed calls, the number and duration of Bands B and C calls, and the applicable volume discounts (p. 18).

This requirement is inappropriate. The objective of the SimpliFive and CallPack plans is to provide the customer with both a simpler rate structure and simpler bills. Customers have repeatedly indicated to Ameritech Illinois in market research that they prefer a simpler bill. The Company provides on the bill the information which the customer needs to assess the accuracy of the billed amounts under the optional calling plan. This approach is consistent with my experiences on AT&T's calling plans.

If CUB's objective is to allow customers to "evaluate, over time, whether these plans are indeed beneficial to them", customers can obtain that information much more efficiently by calling a service representative and asking for a billing comparison.

There are also systems issues associated with CUB's proposal. Today, only the call detail necessary to bill optional calling plan customers under their respective plans is sent to the billing system. Since much of the call detail used to bill customers under the basic rate plan is irrelevant, it is dropped early in the Company's internal processes. Although I have not performed an extensive analysis, I estimate that it would require approximately 2,000-4,000 person hours of programming time to make the necessary system changes.

- Q. Would Ameritech Illinois be willing to provide other information to its optional calling plan customers?
- A. Yes. At the conclusion of this proceeding, I would agree to send a reminder to all optional calling plan customers through either a bill message or a bill insert that: (1) they are taking service under an optional calling plan; and (2) they can contact an Ameritech Illinois service representative to determine whether that is the best plan for them, with an 800 number.
- Q. Please discuss CUB's fifth proposal.

A. As I understand it, CUB's fifth proposal involves information that would be provided to all customers (not just those on SimpliFive and CallPacks). Ameritech Illinois would be required to provide each customer with a description of all its Bands A, B and C rate plans once a year, perhaps through a bill insert (p. 18).

Ameritech Illinois questions whether the value of this information to most customers outweighs the costs that the Company would incur in providing it. Ameritech Illinois' basic rate structure has been in place, essentially unchanged, for over a decade (almost 15 years in MSA-1). It is not new to consumers.

This ratio has not changed very much, year-to-year. Most customers are satisfied with the rate plan they are on. A detailed description of all of the Company's rate options would likely be seen by most customers as "junk" telephone mail from Ameritech Illinois and would simply be thrown into the wastebasket. Moreover, to the extent some customers are confused by the mere fact of

having received this information, it could generate unnecessary calls to the Company's business offices, slowing down response times for customers with genuine service requests or service inquiries.

However, I would agree to prepare such a document and send it automatically to new customers establishing service and to existing customers upon request. I would send all customers a bill message annually, advising them that this information is available and providing an 800 number to request it.

Q. Please discuss CUB's last proposal.

A. Ms. Terkeurst proposes that Ameritech Illinois be required to fund a consumer education program through print and electronic media, as well as bill inserts. The purpose of this campaign would be to educate consumers about: (1) Ameritech Illinois' basic rates, (2) ways they can control telephone costs, (3) the availability of calling plans, and (4) the existence of competition for some services. These materials would be reviewed prior to distribution by the Hearing Examiner (p. 18).

The first and third items (i.e., information on basic rates and optional calling plans) duplicate CUB's fifth proposal, which I already discussed.

I assume that, by the phrase "ways they can control their telephone costs", Ms. Terkeurst intends an educational campaign advising customers that rates are lower in off-peak periods and/or that customers can save money by making shorter calls. I question whether such a campaign is necessary. Peak/off-peak and timed calling rate structures have been common in the telecommunications industry for decades -- historically, every IXC charged more for peak long distance calls than for off-peak long distance calls and more for long calls than for short calls. I do not believe that the massive consumer education program contemplated by CUB is necessary.

I also do not believe that it is Ameritech Illinois' responsibility to advise customers of the "existence of competition". The existence of competition for Band C calling should already be evident to customers. The IXCs engage in media, direct mail and telemarketing campaigns to

advise customers of this fact. In addition, when customers call to establish service or otherwise inquire about selecting an alternative carrier for Band C calling, the Ameritech Illinois service representative advises customers that they have a choice of service providers and offers to read from a list of providers which is randomized weekly.

In addition, one player in the marketplace (i.e., Ameritech Illinois) should not be required to, in effect, market the services of its competitors. If the Commission wishes to undertake an educational campaign on the existence of competition, it would be more appropriate to do so itself or through the auspices of a third-party organization.

Q. Is there such an organization?

A. Yes. The terms of the SBC/Ameritech Merger Order required creation of a "Consumer Education Fund". Ameritech Illinois will make \$1 million available to this fund each year for three years, beginning this year.

This fund is administered by a Committee whose members include representatives of Ameritech Illinois, the

Commission, governmental organizations and consumer groups.

In fact, Mr. Goldman represents CUB on that Committee.

These representatives were approved by the Commission on March 1, 2000, in Docket 00-0196. The educational program which CUB envisions would be more appropriately carried out under the auspices of this Fund. The Committee can determine what information consumers need on an industry-wide basis and communicate that information.

REFUNDS

Q. CUB also recommends that Ameritech Illinois be required to refund all "overcharges" to consumers that occurred under SimpliFive and CallPacks. Would you comment on this proposal?

A. Yes. There is absolutely no justification for such a requirement. Ameritech Illinois' customers have not been "overcharged". These customers have been charged the rates in Ameritech Illinois' filed tariffs, and CUB's witnesses have not contended otherwise. Furthermore, as I explained previously, Ameritech Illinois' marketing practices have

not been deceptive. All of the information necessary to make informed decisions is available to customers.

Q. Would there be implementation and equity issues associated with refunds?

A. Definitely. First, it would be difficult to identify the customers who were "overcharged", using CUB's terminology. Customer usage varies month-to-month. Thus, even if individual customers were paying more under SimpliFive or a CallPack in a given month (or even several months), that does not necessarily mean that they paid more over a longer period of time (e.g., annually). If Ameritech Illinois were to base refunds only on a narrow window of data, some customers would receive refunds who should not under CUB's theory of the case (and some customers would not receive refunds who should).

Second, customer usage patterns change over time. For example, SimpliFive or a CallPack might be the right decision for a customer when a teenager is in the house or the customer's friends or relatives live in areas which are subject to Band C rates. These plans may become less

attractive when the teenager goes to college or the friends or relatives move. The fact that consumers in those circumstances may not immediately change to a different calling plan does not mean that the original plan was a wrong choice for them or that they are entitled to refunds.

Lastly, it would be expensive to conduct a detailed, multi-billing period analysis for all of the SimpliFive and CallPack customers.

Q. Is it even reasonable to assume that every customer who pays more under an optional calling plan than under basic rates is entitled to a refund?

A. No. As Ms. Terkeurst recognizes, many customers prefer the simplified rate structures in SimpliFive and CallPacks, even if it means higher rates (p. 18). There is absolutely no basis for refunding money to subscribers in that circumstance. Those customers made decisions that are right for them.

Q. Ms. Terkeurst claims that refunds for all such customers are necessary because it is "impossible" to identify them (p. 18). Do you agree?

A. No. Ms Terkeurst is ignoring the obvious solution -- i.e., let the customer decide. In the event that the Commission concludes that refunds are required -- an outcome which I do not expect -- these SimpliFive and CallPack customers should simply be given another opportunity to decide what rate plan they want to be on. If they decide not to change back to basic rates, then clearly no refunds would be appropriate.

Q. Are there other issues?

A. Yes. If Ameritech Illinois were required to issue refunds in the manner CUB recommends, as part of that process the Company would switch all customers receiving refunds back to basic rates. It would make no sense to issue refunds and, at the same time, continue those customers on SimpliFive or CallPacks. Customers may well object to having their service decisions made for them unilaterally -- notwithstanding CUB's view of the situation.

CONCLUSION

Q. Does this conclude your testimony?

A. Yes. There is no basis for CUB's complaint and it should be denied by the Commission.

Illinois Commerce Commission
Docket No. 00-0043
Ameritech Illinois Exhibit 1.0 (Shah)
Schedule 1